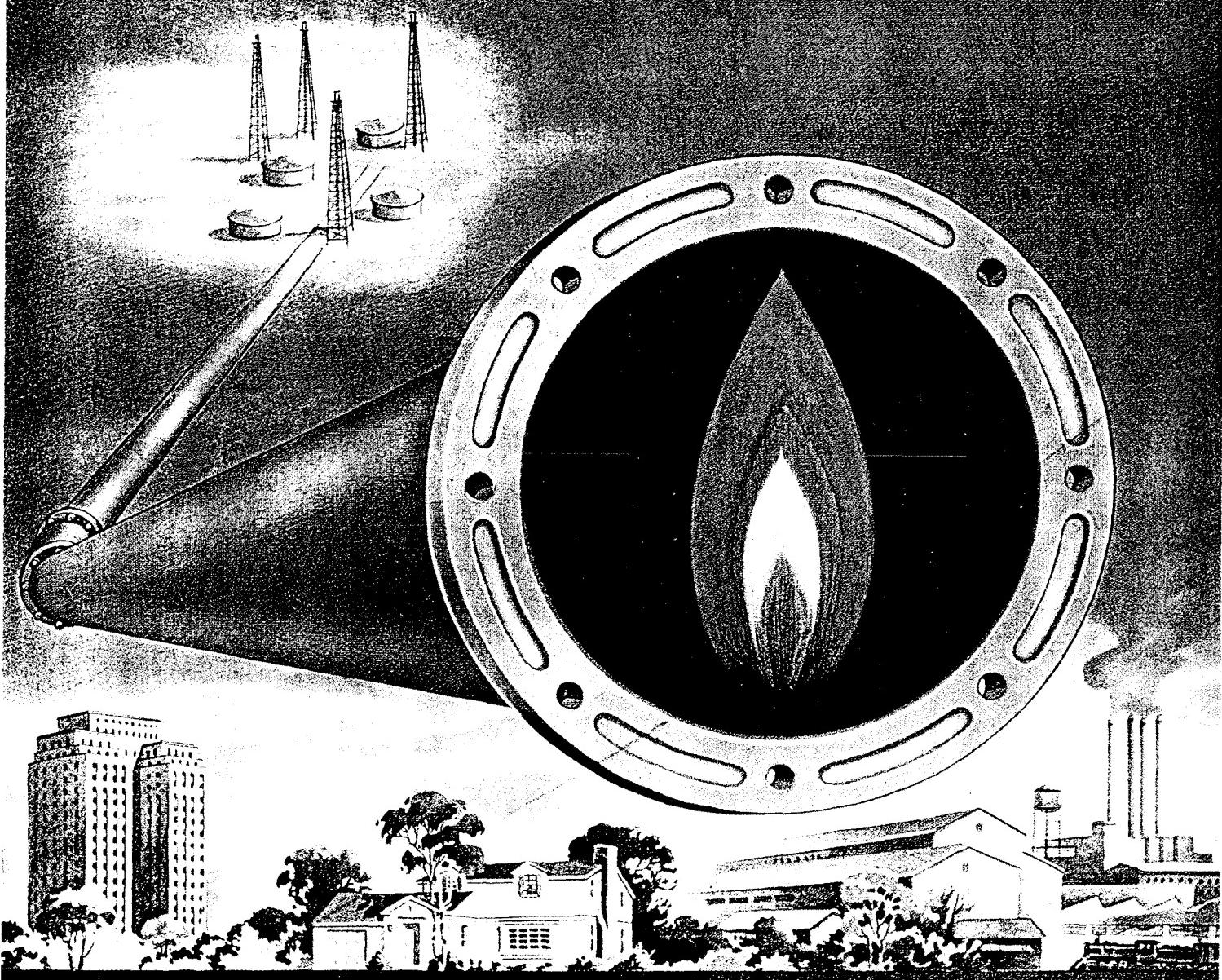


EXHIBIT 29

AMERICAN NATURAL GAS COMPANY



ANNUAL REPORT • 1949

WG 000066313

AMERICAN NATURAL GAS COMPANY

165 BROADWAY, NEW YORK 6, NEW YORK

DIRECTORS

DUDLEY B. W. BROWN
WILLIAM CHAMBERLAIN
W. F. DOUTHIRT
CLIFTON G. DYER

HENRY FINK
STANHOPE FOSTER
C. A. JOHNSON

RALPH T. McELVENNY
DONALD R. RICHBERG
HUBERT R. SCHADDELEE
WILLIAM G. WOOLFOLK

OFFICERS

WILLIAM G. WOOLFOLK.....Chairman of the Company
HENRY FINKPresident
RALPH T. McELVENNY.....Financial Vice President—Assistant to the Chairman
F. W. SHARP.....Vice President and Treasurer
W. F. DOUTHIRT.....Vice President
STANTON S. FAVILLE.....Secretary and General Attorney

Transfer Agents and Registrar

Transfer agents—

The National City Bank of New York, 55 Wall Street, New York 15, N. Y.
The Corporation Trust Company, 15 Exchange Place, Jersey City 2, N. J.

Registrar—

The Chase National Bank of the City of New York, 11 Broad Street,
New York 15, New York

Listed

Common stock—New York Stock Exchange

WG 000066314

1949 Ann Rep.

RECEIVED FEB 11 1950

PUBLIC UTILITIES COMMISSION
DRAFTED.....FILE.....

Annual Report

AMERICAN NATURAL GAS COMPANY

MICHIGAN CONSOLIDATED GAS COMPANY • MILWAUKEE GAS LIGHT COMPANY
MICHIGAN-WISCONSIN PIPE LINE COMPANY



For the Year Ended December 31, 1949

This report and the financial statements contained herein are submitted for the general information of the stockholders of American Natural Gas Company, and are not submitted in connection with, or to induce, any sale or offer to sell or to buy any securities of the Company or in connection with any preliminary negotiation for any such sale or purchase.

WG 000066315



First shipment of pipe in November 1947 for line of
Michigan-Wisconsin Pipe Line Company.

WG 000066316

Letter from the Chairman of the Company

To THE STOCKHOLDERS:

In my last annual letter to you I somewhat mildly predicted, "as we expand some difficulties and problems will of course always be present."

Looking in retrospect over the year 1949 I can assure you this was not an overstatement. Nevertheless, by dint of hard work and more good fortune than bad, the past year proved, for us, one of significance and achievement.

American Natural Gas, our fifty year old American Light & Traction under a new name, is now an integrated natural gas system and operated as such. Our new pipe line, designed and constructed by Ford, Bacon & Davis, was connected to our Wisconsin and Michigan properties sooner than expected and Milwaukee was changed over to straight natural gas some six months ahead of schedule. This accelerated construction will likewise advance the expansion program required to serve the large and increasing demand for natural gas.

Earnings

Consolidated earnings for 1949 more than doubled those of the previous year, being \$1.74 per share on the total common shares outstanding at the year end. This total includes the 276,805 (10% additional) shares issued under "rights" in November and December.

A principal reason for this increase in earnings was the use of the storage fields in Michigan to store gas in the summer period to meet winter peaks. This materially reduced the necessity for manufacturing very expensive high Btu gas at Detroit to supplement the supply of natural gas.

Operating revenues increased approximately \$8,000,000 to a total for the year of \$59,007,819.

Increase in Gas Reserves

Much has been said about the adequacy of our reserves. I take this opportunity to report thereon.

When we first contracted with Phillips Petroleum Company for our gas supply the reserves secured were estimated at $3\frac{1}{2}$ trillion cubic feet of natural gas. About one-fourth of this original reserve is held under subcontracts between Phillips and other producers. The validity of these subcontracts has been in litigation since 1947. I am glad to tell you that by a recent agreement between Phillips and the subcontrac-

tors we now consider this reserve has been assured to us. Thus the acreage originally contracted for remains intact and later development and study indicates that the gas available therefrom is considerably greater than the 3½ trillion cubic feet earlier estimated. I am also very glad indeed to tell you that in the latter part of 1949 we negotiated three new contracts with Phillips Petroleum Company covering additional acreage in the Texas portion of the Hugoton Field. This has added substantially to our original reserves located in the same general area.

It is now estimated on the basis of independent geological study that our total proven reserves approximate 4.4 trillion, which will supply our pipe line with 343 million cubic feet per day up to 24 years, with daily deliveries in diminishing amounts thereafter. We are on the alert to procure further additional gas supplies as time goes on and market demands increase.

Growing Demand for Natural Gas

Natural gas for all purposes is in great demand in our served territories, especially for space heating and industry. Since July 30, 1949, when restrictions on acceptance of space heating loads were removed in Michigan, we have had approximately 150,000 requests for such service in the State and about 120,000 of the applicants have been connected to the lines. Applications are still being made in large number.

A substantial increase in the space heating load is likewise being experienced in Milwaukee, where restrictions were removed approximately at year end. Indeed the demand for our service in all classifications has far exceeded our estimates. Our allowed compressor capacity proving wholly inadequate to push through the pipe line the gas necessary to supply our markets, we sought authorization from the Federal Power Commission to increase our compressor capacity to permit an annual market deliverability of 110.5 billion cubic feet. This would require a total daily input into the pipe line of about 343 million cubic feet.

Our application was made last December. Hearings began this past March. In that month, through a temporary certificate, the Commission authorized installation of a part of the compressors requested. Hearings regarding the needed compressor horsepower reconvene April 24th. The present authorized capacity is inadequate. If the existing and growing load is to be served, the full amount of the capacity requested must be granted without delay, otherwise gas rationing is inevitable.

The great increase in demand for service necessitates a corresponding expansion in the distribution facilities of the System. Both Milwaukee Gas Light and Michigan Consolidated are engaged in substantial construction programs to this end. To finance their expansion it will be necessary for these two companies as well as Michigan-Wisconsin Pipe Line to sell additional securities in 1950. To aid in securing the necessary funds and to maintain sound capital structures it is expected that our Company will make an offering of additional shares of its common stock during the year.

Some growing pains will inevitably attend our expansion program but after the initial problems are disposed of we should reap substantial rewards in increased satisfaction of our customers and greater dividends for our stockholders.

Dividend Prospects

I have been asked on numerous occasions, "When do you expect to increase your dividend?"

Usually the answer to such a question is the rather formal statement, "The Directors will consider earnings, cash requirements of the System, general business conditions and other factors and from time to time determine dividend policy." You are familiar with this statement. None of you, I am sure, questions the soundness of the fundamental corporate principle it expresses. Yet the numerous stockholder inquiries I have received warrant some elaboration in this Report.

Naturally I cannot commit our Directors, but I do know their thinking on this dividend matter. All of them are stockholders. None favors a meager dividend policy. They believe that the equity money, or as sometimes called, the "responsible money," should be well paid for the service it renders and the risks it takes.

But also, they know that this System is not yet fully seasoned, has not yet attained its potential earning power and that its new money needs are substantial. They consider that their first duty to the stockholders and the public we serve is to keep this enterprise on a sound financial basis. Second to this and only to this is the duty to keep dividends flowing regularly and on as high a level as conditions permit. Further we can neither promise nor predict.

* * * * *

Some 15,000 stockholders now own this business. Many of you are newcomers to our ranks. We of the Board are very grateful to all of you for your support and the confidence which you have evidenced in many ways.

Turning this Company from its program of liquidation and consolidating it into an active going and virile concern has been no easy task. Many generous people have been most kind in complimenting me personally. This I deeply appreciate. But certainly this has not been a one-man job. Many minds and hands have made invaluable contribution. The fidelity and industry of the six thousand men and women who comprise our System organization deserve the gratitude of the proprietors.

I have always felt that the best collateral a stockholder can have is a capable and loyal organization. You have one.

WILLIAM G. WOOLFOLK,
Chairman of the Company.

April 14, 1950.

FINANCIAL STATEMENTS

Financial statements of the Company, together with the Certificate of Arthur Andersen & Co., independent auditors and accountants, are included beginning at page 16.

EARNINGS

Consolidated earnings applicable to common stock of the Company were \$5,301,675 in 1949 compared with \$1,843,797 in 1948. These earnings were \$1.74 per share on the 3,044,855 shares of the Company outstanding at the end of 1949 compared with earnings during 1948 of \$.67 per share on the 2,768,050 shares then outstanding.

The following table shows the source of consolidated earnings for the years 1949 and 1948:

	1949	1948	Increase or Decrease*
EARNINGS ON COMMON STOCKS OF SUBSIDIARIES—			
Michigan Consolidated Gas Company.....	\$ 5,287,514	\$ 1,660,051	\$ 3,627,463
Michigan-Wisconsin Pipe Line Company.....	370,987	—	370,987
Milwaukee Gas Light Company.....	994,436	725,973	268,463
INCOME FROM INVESTMENTS DISPOSED OF IN 1948 UNDER INTEGRATION PLAN—			
The Detroit Edison Company.....	—	483,555	483,555*
Madison Gas and Electric Company.....	—	442,888	442,888*
	<hr/> <u>\$ 6,652,937</u>	<hr/> <u>\$ 3,312,467</u>	<hr/> <u>\$ 3,340,470</u>
EXPENSES, TAXES, INTEREST AND PREFERRED DIVIDENDS, LESS OTHER INCOME, OF AMERICAN NATURAL GAS COMPANY.....			
	1,351,262	1,468,670	117,408*
CONSOLIDATED EARNINGS ON COMMON STOCK.....	<hr/> <u>\$ 5,301,675</u>	<hr/> <u>\$ 1,843,797</u>	<hr/> <u>\$ 3,457,878</u>

Consolidated earnings for 1949 reflect for the first time earnings of Michigan-Wisconsin Pipe Line Company, although only in a small amount as operation of the pipe line did not commence until the end of October. The full benefits of the pipe line, both from the standpoint of return on investment in the line and increased earnings of the distributing companies through availability of a greater supply of natural gas, will not be realized until the compressor capacity of the pipe line is further increased.

The improvement in consolidated earnings is attributable primarily to the increase of \$3,627,000 in earnings of Michigan Consolidated Gas Company. Earnings of that company in 1948 had suffered severely from the heavy expense incurred, particularly during the first quarter, in manufacturing large quantities of high-cost gas required to supplement the inadequate supply of natural gas.

The principal factors in the successful operations of Michigan Consolidated for 1949 were (1) an increase in the volume of sales and a decrease in the unit cost of gas sold, and (2) the application of a surcharge authorized by the Michigan Public Service Commission on sales in excess of 2,500 cubic feet per customer per month. The past year was the first full year of operation by Michigan Consolidated of the pipe line from Detroit to the Austin gas storage field in west central Michigan. Through storage operations Michigan Consolidated was able to obtain the maximum advantage from its supply of natural gas. The availability of natural gas late in the year from Michigan-Wisconsin Pipe Line was also a beneficial factor. It was, nevertheless, necessary for Michigan Consolidated to manufacture gas during the year and in the early months of 1950.

Earnings from utility operations of Milwaukee Gas Light Company showed a substantial rise, amounting to \$952,000 in 1949 compared with \$62,000 in 1948. The improvement resulted primarily from additional revenues obtained through a rate increase effective March 18, 1949. Reduced prices of some commodities used in manufacturing gas and the introduction of natural gas late in 1949 were also beneficial factors. A portion of the decrease in the cost of gas was offset by an increase in other operating expenses, due to higher wages, more employees, and substantially increased maintenance work on the distribution facilities in connection with the commencement of natural gas operations.

Earnings of Milwaukee Solvay Coke Company, wholly-owned by Milwaukee Gas Light, were \$43,000 in 1949 compared with \$664,000 in 1948. The low earnings were due to a number of factors, including a decrease in the rate of operations, higher cost of coal and labor, a decline in the average sales price of coke, and a substantial reduction in nonoperating income. Recently, the coke market has considerably improved and if this condition continues, earnings of the Coke Company should be better in 1950.

REVENUES AND SALES

Gas operating revenues of the System totaled \$59,007,819 in 1949, an increase of \$7,976,284, or 15.6%, over 1948. Revenues in 1949 and 1948, and the per cent change in revenues and in therms sold, by principal classifications, are shown in the following table:

Class of Sales	Revenues		Increase or Decrease*	
	1949	1948	Revenues	Therms Sold
Residential (including heating)	\$40,429,366	\$35,628,681	13.5%	6.8%
Commercial	6,566,484	5,569,523	17.9	2.5
Industrial	10,738,654	8,545,529	25.7	10.0
Other utilities	67,826	153,610	55.8*	6.6
Miscellaneous service	113,141	73,742	53.4	128.8
Other gas revenues	1,092,348	1,060,450	3.0	—
Total	<u>\$59,007,819</u>	<u>\$51,031,535</u>	<u>15.6%</u>	<u>7.2%</u>

The expansion in heating business and in industrial sales, made possible by the increase in the supply of natural gas, contributed substantially to the gain of 7.2% in total therms sold. The increase of 15.6% in total revenues resulted from additional gas sold and higher average revenue per therm due to rate increases.

There was an increase of 32,900, or 3.8%, in the number of customers at the close of the year. Residential customers accounted for most of the increase. Of importance was an increase of 74% in the number of residential customers using gas for house heating. These customers totaled 189,500 at December 31, 1949, compared with 109,100 at the end of 1948, and have continued to increase rapidly in recent months.

INTRODUCTION OF NATURAL GAS IN MILWAUKEE

The commencement of natural gas operations late in 1949 marked a new era in the long history of the Milwaukee Gas Light Company dating back almost a century. The availability of this economical and superior fuel will permit Milwaukee Gas Light to bring better and increased service to a greater number of people. Immediate advantages have been realized by customers through a reduction of approximately 20% in rates and the removal of restrictions on the sale of gas for househeating purposes.

The changeover to natural gas was completed early in January, 1950. The work was done progressively by districts with a minimum of inconvenience to customers; as the work in each district was completed, natural gas service was immediately made available to all customers within the district. The cost of the conversion program through 1949 was approximately \$3,643,000. Certain additional costs will be incurred during 1950. Subject to approval by the Public Service Commission of Wisconsin, Milwaukee Gas Light contemplates amortizing the conversion costs and related expenses by charges to operating expenses over a period of ten years commencing July 1, 1950.

INCREASED SUPPLY OF NATURAL GAS IN MICHIGAN

Although natural gas has been available to Michigan Consolidated for some years through purchases from nonaffiliated sources and from production in Michigan, the supply has been increasingly inadequate in recent years. This retarded load growth and required the imposition of restrictions on acceptance of new heating customers. The need for manufacturing large amounts of high-cost gas to supplement the natural gas supply made necessary early in 1949 an increase in rates to the larger users, in the form of a surcharge on consumption of gas in excess of 2,500 cubic feet per month. With the availability through Michigan-Wisconsin of an additional supply of natural gas, restrictions on new heating customers were removed and the surcharge on rates was discontinued.

The great increase in the demand for gas service and the necessity for prompt authorization of the requested increase in the delivery capacity of the pipe line have been referred to elsewhere in this Report.

PROPERTY ADDITIONS AND IMPROVEMENTS

The increased supply of natural gas for the Michigan properties and the availability of this more efficient fuel for the first time in Milwaukee augmented the already heavy demand for service upon the distributing companies. To meet the demand extensive expansion of their facilities is necessary.

Michigan Consolidated spent approximately \$16,300,000 for expansion during the year, of which \$10,250,000 was for distribution facilities to serve new customers and supply an increased volume of gas to old customers. Approximately \$3,900,000 was expended for compressors and other transmission facilities. It is expected that expenditures in 1950 will be on an increased scale, mostly for transmission and distribution facilities.

Milwaukee Gas Light spent approximately \$4,200,000 for property additions and improvements during the year. A major expenditure, involving \$1,250,000, was for the construction of 15½ miles of mains to connect the distribution system with the pipe line facilities of Michigan-Wisconsin. The balance of the expenditures was primarily for other distribution mains, services and meters. It is estimated that construction expenditures will substantially increase during 1950.

Michigan-Wisconsin spent approximately \$52,300,000 during the year, substantially completing pipe line facilities with a delivery capacity of approximately 56.5 billion cubic feet annually. Additional expenditures will be made in 1950 to complete the pipe line north of Milwaukee and to install limited compressor capacity recently authorized by the Federal Power Commission. Subject to the approval of that Commission, substantial further expenditures will be made during the year to install additional compressors to increase the annual deliverability of the pipe line to approximately 110.5 billion cubic feet.

FINANCING

Reflecting the growth of the properties, the Company for the first time in more than two decades increased its outstanding common stock. This was accomplished through the sale to common stockholders late in 1949 of 276,805 additional shares at \$28.25 a share, on the basis of one new share for each ten shares held. The net proceeds of approximately \$7,600,000 are being invested in common stock of the subsidiary companies to assist them in financing their expansion programs.

During the year Michigan-Wisconsin sold \$54,000,000 principal amount of First Mortgage Bonds, 3½% Series due September 1, 1968, to the Metropolitan Life Insurance Company and The Mutual Life Insurance Company of New York under agreements providing for the purchase by the insurance companies of a total of \$66,000,000 principal amount of the bonds. \$12,000,000 of the bonds were sold to these institutions in 1948.

In July 1949 Michigan Consolidated sold publicly \$25,000,000 principal amount of 3 $\frac{7}{8}$ % Sinking Fund Debentures maturing in 1967. With the proceeds Michigan Consolidated redeemed its \$4,000,000 par value of preferred stock, retired the \$7,250,000 principal amount of short-term notes of its wholly-owned subsidiary, Austin Field Pipe Line Company, and paid temporary bank loans which aggregated \$3,500,000 at the beginning of the year. The remaining proceeds were expended for construction. To aid Michigan Consolidated in its construction program, the Company in December 1949 purchased 142,857 shares of common stock of Michigan Consolidated at par for \$1,999,998 cash.

In June 1949 Milwaukee Gas Light borrowed \$2,000,000 from banks on notes, representing the balance under a credit agreement executed in December 1948, providing for total borrowings of \$4,500,000. Of this amount, \$450,000 is due semiannually, beginning May 31, 1950, to and including May 31, 1952, with interest at 2 $\frac{3}{4}$ %; the balance of \$2,250,000, with interest at 3%, matures November 30, 1952. In October 1949 another credit agreement was executed with the same banks providing for an additional loan of \$4,000,000. Under this agreement, \$3,000,000 was borrowed in 1949 and \$1,000,000 in January 1950. All notes under this agreement mature April 27, 1951, with interest at 2 $\frac{1}{2}$ %.

To provide Milwaukee Gas Light with additional funds required for construction, the Company in March 1950 purchased 250,000 shares of common stock of Milwaukee Gas Light at par for \$3,000,000 cash.

DIVIDENDS

In 1949 the Company paid the prescribed dividend on its preferred shares and paid \$1.20 a share on its common stock, represented by four quarterly cash dividends of 30¢ each. A common dividend of 30¢ was paid February 1, 1950, and a dividend of the same amount has been declared, payable May 1, 1950 to stockholders of record April 15, 1950.

The Company has paid the full dividend requirement on its preferred stock since issuance in 1901 and has paid a dividend every year on its common stock since 1904.

The excess of 1949 earnings over dividend distributions was retained in the business to help finance expansion and increase the equity of the stockholders.

NEW STOCK CERTIFICATES

The new definitive preferred and common stock certificates of the Company, giving effect to the change in name of the Company and other changes adopted at the

last annual meeting of stockholders, will be ready shortly. Stockholders will be advised when they may exchange their old certificates for the new certificates.

A facsimile of the vignette on the new stock certificates, which contain a map of the System, appears on the inside of the back cover page of this Report.

THE AMERICAN NATURAL GAS SYSTEM

American Natural Gas Company owns an integrated natural gas system, including an interstate natural gas pipe line, two gas distributing companies and a service company. The system companies are as follows:

	<u>Per Cent Ownership</u>
American Natural Gas Company	
Michigan-Wisconsin Pipe Line Company.....	100
Michigan Consolidated Gas Company.....	100
Austin Field Pipe Line Company.....	100
Milwaukee Gas Light Company.....	99.8
Milwaukee Solvay Coke Company.....	100
American Natural Gas Service Company.....	100

A brief description of each company is set forth below.

Michigan-Wisconsin Pipe Line Company

Michigan-Wisconsin is a natural gas transmission company with a 24" pipe line originating in the Hugoton field in northwestern Texas and extending in a northeasterly direction to Sandwich, Illinois, where the line branches with one 22" line extending to underground gas storage fields in west central Michigan and a second line of the same size extending into Wisconsin. A number of lateral lines have been completed and additional lines north of Milwaukee are being constructed in 1950. Upon completion, there will be about 1,500 miles of pipe of various sizes, of which approximately 1,154 miles will consist of the 24" main line and the two 22" branch lines. As of December 31, 1949 total investment in property was approximately \$81,900,000.

The pipe line system has the unique advantage of combining the operation of a high-pressure pipe line with the utilization of large underground gas storage fields relatively close to the major markets. When further developed, the storage fields will have a working capacity of approximately 37 billion cubic feet of gas, and will enable the pipe line to be operated at practically a 100% load factor. Gas will be placed in the storage fields during the summer season and withdrawn as required to meet winter peaks. This use of the storage fields will permit delivery during peak periods of a daily maximum supply of gas far in excess of the daily delivery capacity of the pipe line. Without the availability of the storage fields, an additional line requiring a large

increase in investment would be necessary. A further value is that in the event of an interruption in the 24" main line, service north of the point of interruption can be continued from the storage fields.

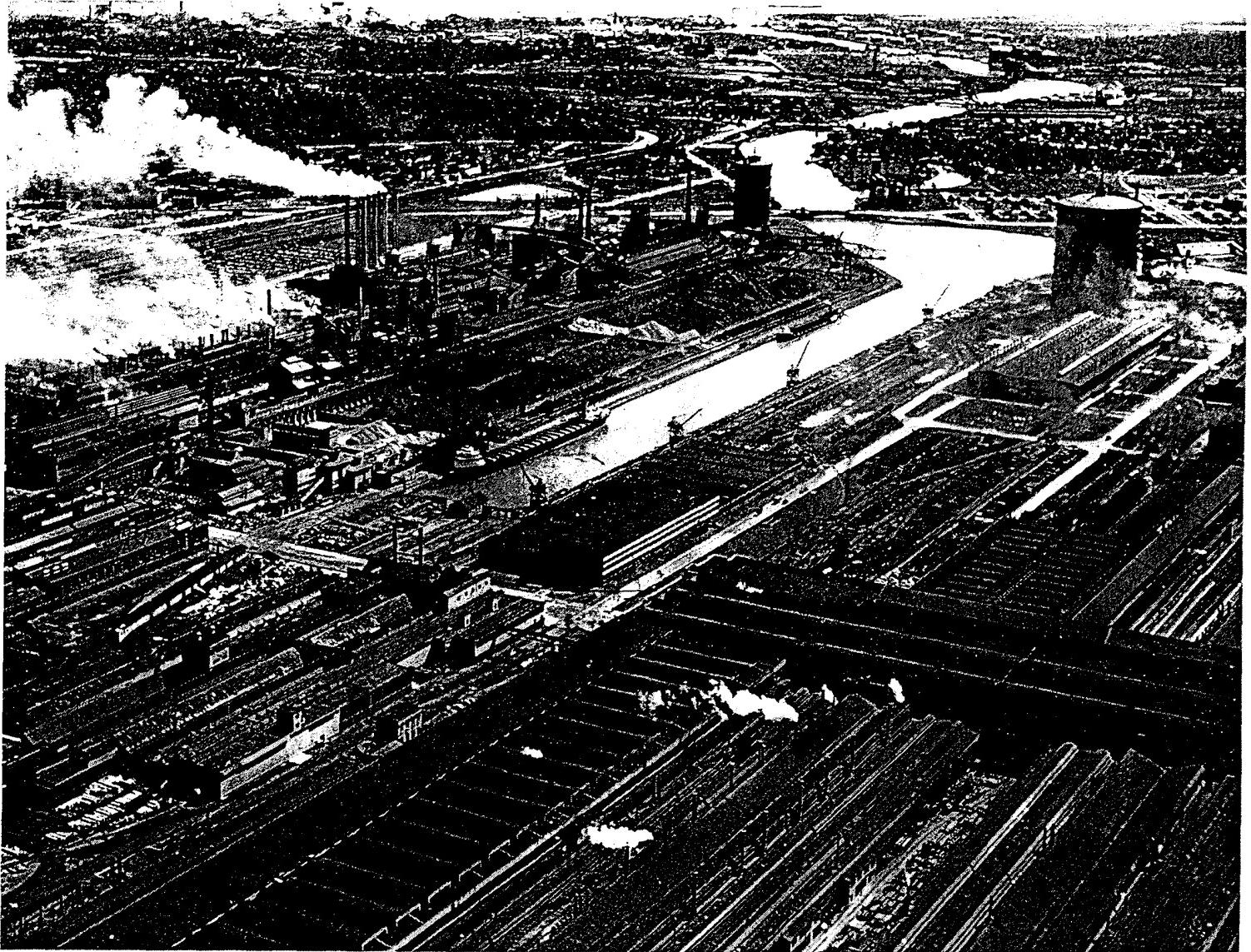
The pipe line serves 11 utility companies in Wisconsin, Michigan, Iowa and Missouri, and will serve 5 additional utilities when connecting lines are completed. The largest customers are Michigan Consolidated Gas Company and Milwaukee Gas Light Company.

Under order of the Federal Power Commission, Michigan-Wisconsin is charging its customers a uniform flat rate pending authorization of a tariff in form satisfactory to the Commission. Hearings have been completed on a tariff filed by the company and the matter in due course will be determined by the Commission.

Construction scene on line of Michigan-Wisconsin Pipe Line Company.



WG 000066326



Plant of large industrial customer of Michigan Consolidated Gas Company.
Detroit River is in the background.

Michigan Consolidated Gas Company

This company, largest in the American Natural Gas system, represents one of the early investments, dating back to 1906. The company was incorporated under the laws of Michigan in 1898.

Michigan Consolidated renders gas service in communities in Michigan with an estimated population in excess of 2,800,000. The principal cities served are Detroit, Ann Arbor, Ypsilanti, Grand Rapids and Muskegon. The service area includes a large segment of the automobile industry. At the end of 1949, Michigan Consolidated had 679,323 customers and an investment in property of \$141,000,000, including the facilities of Austin Field Pipe Line Company.

Through Austin Field Pipe Line Company, Michigan Consolidated owns a 24" pipe line approximately 140 miles in length, connecting its distribution system in Detroit with its underground gas storage fields in west central Michigan. Certain of these fields are leased to and operated by Michigan-Wisconsin Pipe Line Company. One of the questions at issue in proceedings before the Federal Power Commission is whether the storage fields should be operated by Michigan-Wisconsin or Michigan Consolidated.

Milwaukee Gas Light Company

This company, incorporated under the laws of Wisconsin in 1852, is one of the original properties in the American Natural Gas system, having been acquired in 1901. The past year was a notable one as it marked realization of Milwaukee Gas Light's long-sought goal of substituting natural gas for manufactured gas service.



Sky line view of Milwaukee, Wisconsin from lake front. Office building of Milwaukee Gas Light Company appears in right center background.

The company renders gas service in Milwaukee, Wisconsin, and environs with an estimated population exceeding 800,000. The area has great diversity of industry. At year end, Milwaukee Gas Light had 210,875 customers, an increase of 1,865 for the year. Residential househeating customers totaled 9,984, a relatively low saturation. A large potential heating load is available now that the company has been converted to natural gas service and restrictions on acceptance of this type of business have been removed. Investment in property at the close of the year was \$39,300,000.

Milwaukee Solvay Coke Company is located in Milwaukee and is engaged in the manufacture and sale of coke, gas and other by-products. Prior to the availability of natural gas, the Coke Company was the major source of gas supply of Milwaukee Gas Light. The gas production facilities of the Coke Company, as well as those of the Gas Light Company, are of great value as stand-by facilities in safeguarding continuity of service to the customers of the Gas Light Company. The gas production of the Coke Company is sold to the Sewerage Commission of the City of Milwaukee on an interruptible basis.

American Natural Gas Service Company

With approval of the Securities and Exchange Commission, American Natural Gas Service Company was recently organized as a subsidiary of American Natural Gas Company, to render engineering, accounting, financial and other services to System companies at cost. The Service Company, a Michigan corporation, has its office in Detroit.

AMERICAN NATURAL GAS COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

PROPERTY AND OTHER ASSETS

	December 31	
	1949	1948
UTILITY PLANT:		
Original cost	\$270,086,702	\$198,316,512
Cost in addition to original cost, being amortized.....	1,582,418	1,653,057
	<hr/>	<hr/>
	\$271,669,120	\$199,969,569
INVESTMENTS, at cost.....	<hr/>	<hr/>
	\$ 139,404	\$ 139,404
	<hr/>	<hr/>
CURRENT ASSETS:		
Cash	\$ 19,559,535	\$ 17,553,087
Deposit with trustee—withdrawable in accordance with provisions of bond indenture	8,600,000	—
United States Government obligations, at cost.....	3,002,202	—
Temporary investments, at cost.....	—	307,796
Accounts receivable, less reserves of \$141,367 and \$116,343, respectively.....	8,926,058	5,833,561
Materials and supplies.....	8,151,856	9,487,260
Gas in underground storage.....	947,699	766,925
Prepayments	470,401	464,483
	<hr/>	<hr/>
	\$ 49,657,751	\$ 34,413,112
DEFERRED CHARGES:		
Natural gas conversion costs, subject to amortization.....	\$ 3,749,097	\$ 129,438
Debt discount and expense, being amortized.....	1,446,798	1,341,037
Capital stock expense.....	320,989	109,458
Other	255,803	412,346
	<hr/>	<hr/>
	\$ 5,772,687	\$ 1,992,279
	<hr/>	<hr/>
	\$327,238,962	\$236,514,364

The notes to the financial statements are an integral part of this statement.

AMERICAN NATURAL GAS COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

STOCKHOLDERS' EQUITY AND LIABILITIES

	December 31	
	1949	1948
STOCKHOLDERS' EQUITY:		
Common stock—authorized 4,000,000 shares—		
Outstanding—3,044,855 shares—without par value.....	\$ 77,020,991	\$ —
Outstanding—2,768,050 shares—\$25 par value.....	—	69,201,250
Other capital funds paid in.....	1,054,332	951,731
Earnings retained in the business, since January 2, 1948.....	4,127,184	2,512,327
	\$ 82,202,507	\$ 72,665,308
Preferred stock—		
American Natural Gas Company—noncallable, 6% cumulative.....	763,850	763,850
Subsidiaries	2,000,000	6,100,796
	\$ 84,966,357	\$ 79,529,954
LONG-TERM DEBT:		
American Natural Gas Company—collateral trust notes, 2 3/4%-4%, due serially to 1958	\$ 14,000,000	\$ 14,500,000
Subsidiaries	160,509,000	85,411,000
	\$174,509,000	\$ 99,911,000
Total capitalization	\$259,475,357	\$179,440,954
CURRENT LIABILITIES:		
Current maturities of notes	\$ 1,400,000	\$ 5,000,000
Accounts payable	9,534,866	4,081,420
Dividends declared	924,774	841,732
Customers' deposits	501,457	465,731
Accrued general taxes	1,025,651	821,159
Federal income tax.....	5,611,155	2,937,292
Accrued interest	1,712,272	1,190,656
Other	1,422,755	307,690
	\$ 22,132,930	\$ 15,645,680
DEFERRED CREDITS:		
Interest capitalized on plant expenditures, less interest on bonds, during construction period	\$ 1,946,426	\$ 716,576
Premium on debt, less expenses, being amortized.....	1,054,014	1,188,254
Other	128,711	89,607
	\$ 3,129,151	\$ 1,994,437
RESERVES:		
Depreciation	\$ 39,418,324	\$ 36,049,169
Maintenance	756,163	1,174,717
Contingencies	1,315,910	1,351,354
Contributions in aid of construction.....	572,938	569,799
Other	438,189	288,254
	\$ 42,501,524	\$ 39,433,293
	\$327,238,962	\$236,514,364

The notes to the financial statements are an integral part of this statement.

AMERICAN NATURAL GAS COMPANY AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME

	Year Ended December 31	
	1949	1948
OPERATING REVENUES	\$59,007,819	\$51,031,535
OPERATING EXPENSES:		
Natural gas purchased.....	\$10,011,980	\$ 8,625,050
Operation	24,862,153	29,191,455
Maintenance	3,962,771	3,032,812
Depreciation	4,024,576	2,689,952
Taxes—		
State, local and miscellaneous Federal.....	4,142,906	3,813,855
Federal and State income.....	3,021,491	522,289
Total operating expenses.....	\$50,025,877	\$47,875,413
Operating income	\$ 8,981,942	\$ 3,156,122
OTHER INCOME:		
Income from investments disposed of in 1948.....	—	926,443
Coke and by-products.....	43,081	961,500
Other (net)	589,337	515,323
Gross income	<u>\$ 9,614,360</u>	<u>\$ 5,559,388</u>
INCOME DEDUCTIONS:		
Interest on long-term debt.....	\$ 3,917,773	\$ 2,701,899
Amortization of debt discount, premium and expense.....	29,514	31,809
General interest	115,961	154,925
Interest charged to construction—credit*	100,231*	388,167*
Dividends on preferred stocks of subsidiaries.....	270,600	330,000
Other	33,237	172,209
Total income deductions.....	\$ 4,266,854	\$ 3,002,675
CONSOLIDATED NET INCOME.....	\$ 5,347,506	\$ 2,556,713

The notes to the financial statements are an integral part of this statement.

AMERICAN NATURAL GAS COMPANY AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED EARNINGS RETAINED
IN THE BUSINESS
(Since January 2, 1948)

YEAR ENDED DECEMBER 31, 1949

BALANCE DECEMBER 31, 1948.....	\$ 2,512,327
NET INCOME	5,347,506
	<u>\$ 7,859,833</u>
ADD OR DEDUCT*:	
Dividends on—	
Preferred stock	\$ 45,831*
Common stock	3,404,138*
Redemption premiums on securities of subsidiary.....	300,643*
Gain on sale of investment.....	24,943
Other	6,980*
	<u>\$ 3,732,649*</u>
BALANCE DECEMBER 31, 1949.....	<u>\$ 4,127,184</u>

STATEMENT OF OTHER CAPITAL FUNDS PAID IN
YEAR ENDED DECEMBER 31, 1949

BALANCE DECEMBER 31, 1948.....	\$ 951,731
Unused portions of reserves established in connection with integration plan.....	102,601
BALANCE DECEMBER 31, 1949.....	<u>\$ 1,054,332</u>

The notes to the financial statements are an integral part of these statements.

AMERICAN NATURAL GAS COMPANY
BALANCE SHEETS

INVESTMENTS AND OTHER ASSETS

	December 31	
	1949	1948
INVESTMENTS:		
Common stocks of subsidiaries, at cost.....	\$91,095,132	\$89,093,734
Less—Reserve for net difference between costs of investments in subsidiaries and underlying book values thereof at January 2, 1948, date of accounting reorganization	4,705,673	4,705,673
	<u>\$86,389,459</u>	<u>\$84,388,061</u>
Real estate, at cost.....	99,583	99,583
	<u>\$86,489,042</u>	<u>\$84,487,644</u>
CURRENT ASSETS:		
Cash	\$ 9,005,684	\$ 4,616,819
United States Government obligations, at cost.....	2,002,202	—
Temporary investments, at cost.....	—	307,796
Other	15,855	388
	<u>\$11,023,741</u>	<u>\$ 4,955,003</u>
DEFERRED CHARGES:		
Common stock expense.....	\$ 203,466	\$ —
Collateral trust note expense.....	24,313	29,459
	<u>\$ 227,779</u>	<u>\$ 29,459</u>
	<u><u>\$97,740,562</u></u>	<u><u>\$89,472,106</u></u>

STOCKHOLDERS' EQUITY AND LIABILITIES

	1949	1948
STOCKHOLDERS' EQUITY:		
Common stock—authorized 4,000,000 shares—		
Outstanding 3,044,855 shares—without par value.....	\$77,020,991	\$ —
Outstanding 2,768,050 shares—\$25 par value.....	1,054,332	69,201,250
Other capital funds paid in.....	2,156,550	951,731
Earnings retained in the business, since January 2, 1948.....	—	1,558,071
	<u>\$80,231,873</u>	<u>\$71,711,052</u>
Noncallable preferred stock, 6% cumulative—par value \$25 per share—authorized and outstanding 30,554 shares.....	763,850	763,850
Total stockholders' equity.....	\$80,995,723	\$72,474,902
COLLATERAL TRUST NOTES, 2½%-4%, due serially to 1958.....	14,000,000	14,500,000
Total capitalization.....	<u><u>\$94,995,723</u></u>	<u><u>\$86,974,902</u></u>
CURRENT LIABILITIES:		
Current maturities of collateral trust notes.....	\$ 500,000	\$ 500,000
Accounts payable	115,176	57,608
Dividends declared	924,774	841,732
Federal income tax.....	371,395	248,606
Accrued interest	82,055	84,194
Other	36,883	15,064
	<u>\$ 2,030,283</u>	<u>\$ 1,747,204</u>
RESERVE FOR CONTINGENCIES.....	\$ 714,556	\$ 750,000
	<u><u>\$97,740,562</u></u>	<u><u>\$89,472,106</u></u>

The notes to the financial statements are an integral part of this statement.

AMERICAN NATURAL GAS COMPANY

STATEMENTS OF INCOME

	Year Ended December 31	
	1949	1948
INCOME:		
Dividends—		
Michigan Consolidated Gas Company.....	\$ 4,662,797	\$ 1,398,839
Milwaukee Gas Light Company.....	666,139	—
Other income	47,543	1,526
Income from investments disposed of in 1948.....	—	926,443
Total income	<u>\$ 5,376,479</u>	<u>\$ 2,326,808</u>
EXPENSES:		
General and administrative.....	\$ 548,828	\$ 428,198
Taxes—		
State, local and miscellaneous Federal.....	87,106	98,618
Federal income	173,000	74,200
Interest and other deductions.....	544,040	156,264
Total expenses	<u>\$ 1,352,974</u>	<u>\$ 757,280</u>
NET INCOME	<u>\$ 4,023,505</u>	<u>\$ 1,569,528</u>

STATEMENT OF EARNINGS RETAINED IN THE BUSINESS (Since January 2, 1948)

YEAR ENDED DECEMBER 31, 1949

BALANCE DECEMBER 31, 1948.....	\$ 1,558,071
NET INCOME	4,023,505
	<u>\$ 5,581,576</u>

ADD OR DEDUCT*:

Dividends on—	
Preferred stock	\$ 45,831*
Common stock	3,404,138*
Gain on sale of investment.....	24,943
	<u>\$ 3,425,026*</u>
BALANCE DECEMBER 31, 1949.....	<u>\$ 2,156,550</u>

STATEMENT OF OTHER CAPITAL FUNDS PAID IN

YEAR ENDED DECEMBER 31, 1949

BALANCE DECEMBER 31, 1948.....	\$ 951,731
Unused portions of reserves established in connection with integration plan.....	102,601
BALANCE DECEMBER 31, 1949.....	<u>\$ 1,054,332</u>

The notes to the financial statements are an integral part of these statements.

AMERICAN NATURAL GAS COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

LONG-TERM DEBT

As security for the Collateral Trust Notes, American Natural Gas Company has pledged all of its investments in the common stocks of Michigan Consolidated Gas Company, Michigan-Wisconsin Pipe Line Company and Milwaukee Gas Light Company and has covenanted to pledge all securities issued by such subsidiaries hereafter acquired by the Company. The notes mature in principal amounts of \$500,000 annually for the five years ending November 5, 1953; in principal amounts of \$1,000,000 annually for four years thereafter; and in the principal amount of \$8,500,000 at the end of the tenth year.

Long-term debt of subsidiaries at December 31, 1949, consisted of the following:

Michigan Consolidated Gas Company—	
First mortgage bonds—	
3½% series due 1969.....	\$ 36,860,000
3¾% series due 1969.....	6,895,000
2½% series due 1969.....	5,820,000
3⅓% sinking fund debentures, due 1967.....	25,000,000
Michigan-Wisconsin Pipe Line Company—	
First mortgage pipe line bonds—	
3½% series due 1968.....	66,000,000
Milwaukee Gas Light Company—	
First mortgage bonds—	
4½% series due 1967.....	13,334,000
Serial notes—2¾%-3%, due 1952.....	3,600,000
Notes payable to banks—2½%, due 1951.....	3,000,000
	<u>\$160,509,000</u>

The 1950 sinking fund requirements on the long-term debt of Michigan Consolidated Gas Company aggregate \$1,310,000.

PIPE LINE EARNINGS

Michigan-Wisconsin Pipe Line Company commenced operations at the end of October 1949. The consolidated statements of income for the years 1949 and 1948 do not include \$1,229,850 and \$716,576, respectively, of interest during construction which has been capitalized on construction expenditures by Michigan-Wisconsin in accordance with regulatory commission requirements. Such amounts, aggregating \$1,946,426 at December 31, 1949, are recorded as a deferred credit pending completion of the pipe line facilities north of Milwaukee, rather than being included as income for those years.

AMORTIZATION OF NATURAL GAS CONVERSION COSTS

Milwaukee Gas Light Company, subject to approval of the Public Service Commission of Wisconsin, proposes to amortize its natural gas conversion costs by charges to operating expenses over a ten-year period beginning July 1, 1950.

GENERAL

No provision has been made in the accompanying statements for claims against Michigan Consolidated Gas Company of approximately \$1,500,000 involved in litigation with a natural gas supplier in connection with a rate schedule dispute, since it is the opinion of that company and its counsel that such claims cannot be sustained and no liability will result therefrom. A counterclaim of approximately \$1,400,000 was filed in the same litigation. In June, 1949, the District Court entered an adverse judgment on the counterclaim and the matter is pending on appeal by Michigan Consolidated.

The financial statements for 1948 have been restated to give effect to certain accounting adjustments recorded in 1949, including a contingency reserve of approximately \$600,000 for amounts deducted by Michigan Consolidated in 1948 from billings made by the natural gas supplier referred to above, representing the cost of manufacturing gas for which Michigan Consolidated contends the supplier is liable. This matter is in litigation; if decided favorably, net income shown for 1948 will be increased approximately \$426,000.

AUDITORS' CERTIFICATE

*To the Board of Directors,
American Natural Gas Company:*

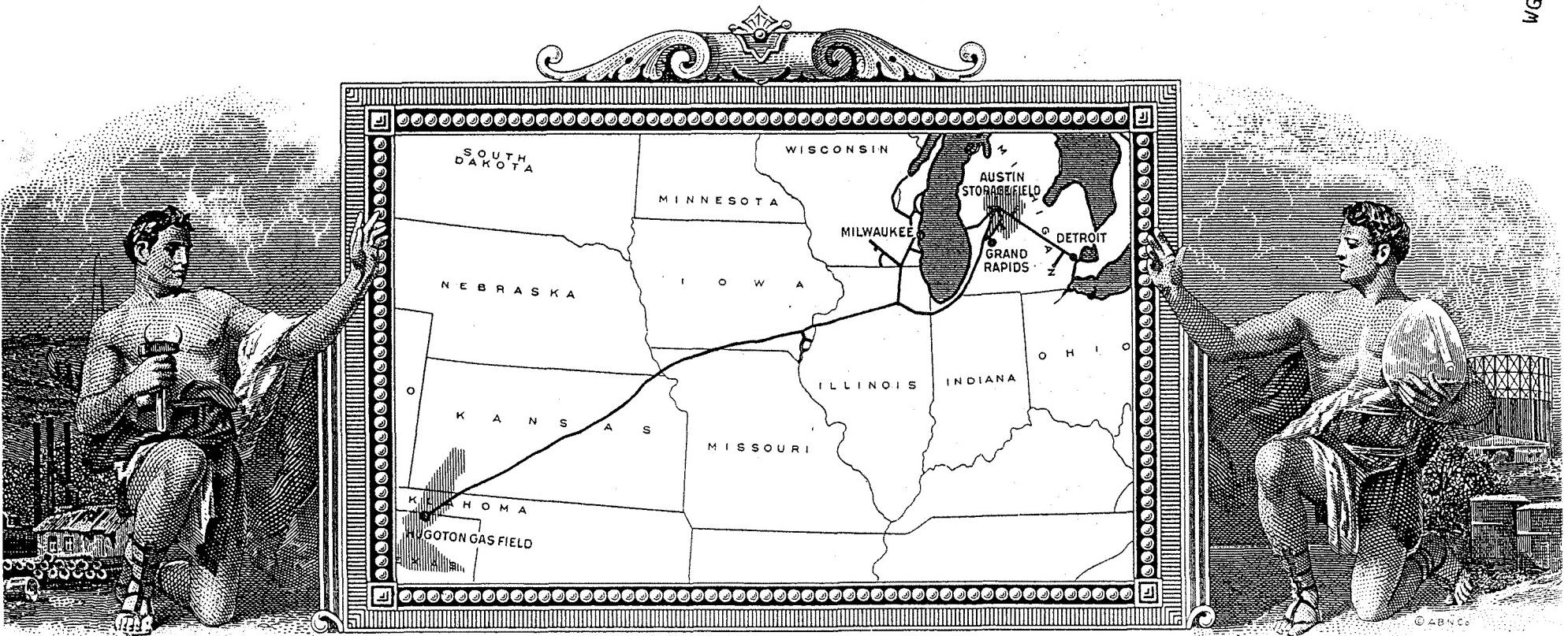
We have examined the balance sheet of AMERICAN NATURAL GAS COMPANY (a New Jersey corporation) as of December 31, 1949, the consolidated balance sheet of the Company and its subsidiaries as of the same date, and the related statements of income, earnings retained in the business, and other capital funds paid in for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously had made similar examinations for the year ended December 31, 1948.

In our opinion, the accompanying balance sheets and related statements of income, earnings retained in the business, and other capital funds paid in were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, and present fairly the financial position of the Company and its subsidiaries at December 31, 1949, and the results of their operations for the year then ended.

ARTHUR ANDERSEN & CO.

New York, New York,
March 20, 1950.

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AMERICAN NATURAL GAS COMPANY

MICHIGAN CONSOLIDATED GAS COMPANY • MILWAUKEE GAS LIGHT COMPANY
MICHIGAN-WISCONSIN PIPE LINE COMPANY